School for Traders & Investors

Twenty-Third Lesson

A Few Don'ts for Inexperienced Traders

Some Self-Imposed Handicaps That Should Be Avoided — Patience as an Asset

ALTHOUGH these observations are made in the interest of the trader of limited experience, undoubtedly there are times when the speculator who has had many years practice might do well to review his impulses and propensities, to observe whether he is not more or less unconsciously falling into some of the very habits that he knows are among the most serious handicaps to successful operations.

Soon after the young trader considers himself graduated from the "paper trading," or amateur class into the ranks of the professionals, and begins to operate with real money, he is likely to develop certain proclivities that may become sources of great danger if they are not deliberately guarded against and controlled. This is especially the case if numerous early trades are profitable and encouraging. Just as there is a tendency to over-expansion in industry during boom periods, so the young trader is led on by a few profitable turns, and is tempted to over-trade.

Danger of Over-Trading

Over-trading is perhaps the greatest curse of the young trader. Whether it be due to enthusiasm over the prospect of apparent progress in the venture, or to the insidious development of the smallest fraction of avarice in his personality, the result is the same, namely, the degeneration of a possible latent ability for trading into a delusive propensity for gambling.

Don't do it! Don't try to operate on a thin margin. You know it is dangerous, and that the slightest unfavorable price movement will make your position vulnerable, however secure it may seem in the beginning. The moment you are in real danger your judgment is impaired, you begin to depend on the opinions of others and on hope. Whenever hope is the excuse for maintaining a position it is time to get out of the market, for your mental machinery is running wild and a crash may be imminent.

DON'T

—Operate on a Thin Margin.

—Pyramid without surrounding your trade with the fullest safeguards.

—Yield to Temptation of Buying "Everything on the List."

—Lay Your Plans Carefully and Then Forget All About Them in Making Your Market Commitments.

—Try to Be in the Market Every Minute.

On the other hand, if you have carefully estimated the trend, based on a study of the outstanding technical and fundamental considerations involved, and have made due allowances for normal rallies or reactions, you will have no doubt regarding the result of your trade if your position is secured by adequate margin. With ample marginal protection, you should receive no impulse to relinquish or reverse your position for any other reason than the development of new technical conditions in the market which may demonstrate to your unbiased judgment that the original decision is no longer consistent. Not until then should you be influenced to close out, either for the purpose of accepting a profit or limiting a loss.

A special form of over-trading is the reckless pyramiding on the increasing profits from open trades. When everything is coming your way for a brief period, you are tempted to relax your vigilance and overdo the matter of putting your additional equity to work. Instead of strengthening your marginal position as you approach the time for the inevitable reaction, you throw caution and conservatism aside and proceed to construct a house of cards that is ready to collapse at the first gust of ill wind.

Don't do it! A more conservative and a safer policy would be to stand pat on your original carefully chosen position until the increasing equity has provided sufficient additional margin to absorb any normal reaction, then take on such additional units as may be carried without impairing the safety of the entire line.

Another Temptation

Another form of over-trading is to yield to the temptation to buy some of

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The wise investor or speculator always has his funds in such a position as to take the most complete advantage of the available opportunities. He does not weaken his position by yielding to the numerous temptations that beset the speculative path and which have proved the undoing of countless well-meaning individuals. The wisest investor or speculator is the one who uses the most common sense in his market operations.

WHAT THE BOND MAN TOLD THE BANKER

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we were making money on it? Heavy expenses, of course, have to come out of our syndicate profits and we get bumped every once in a while with bonds that we can't sell and that later go down in price. But all that is simply part of the game. What determines whether or not you make money out of it is exactly what determines whether or not you make money out of anything else. If you know what you're doing, you make; if you don't, you lose."

"You have told me some mighty interesting things about originators and distributors of bonds," the old banker said, "but you haven't said anything so far about the brokers, the firms that don't sell bonds of their own but simply do business on commission. Where do they come in?"

"Just where the broker in any other line comes in," Stafford answered. "In the bond business, as in the insurance business or anywhere else, brokers are important and necessary and render a mighty useful service. As I said at the very beginning, we distributors practically all have highly developed trading departments which do a lot of business that the brokers used to do; but even so there is lots of business for the good live brokerage organizations which handle no bonds of their own but which buy and sell bonds purely on a commission basis. Some of these people are big, very big; there are brokerage firms which have as many as two or three dozen private wires running out all over the country. Naturally the service which such a firm is able to render to the client who wants to buy or sell some particular bond is very great. We distributors as well as you banks use these brokers all the time. They are the cement that binds the entire bond structure together."

The train rumbled into the Union Station. The two men got up and shook hands. "Goodbye, Mr. Stafford," the old banker said as they walked out. "I've enjoyed meeting you and you sure have given me some mighty interesting information. If more of us in the banks knew more about you bond fellows with whom we do so much business, it would be better for us all around."

"In which sentiment I heartily concur," the bond man said.

WHAT LIBERALISM MEANS TO YOU IN DOLLARS AND CENTS

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to master our fate. I have in mind one fundamental thing, and that is the demoralization of our courts. The Supreme Court has destroyed all our anti-trust legislation. I am in favor of restricting the ease with which it can reverse the laws of Congress, though at the same time I recognize that a constitutional government must have some body empowered to decide whether its acts are constitutional. Most of the trouble, however, starts with the federal district courts. They ought to be made elective, and also the circuit courts. That wouldn't necessarily put them into politics. Where are they now if they are not in politics, by appointment? The courts must be brought close to the people.

"We liberals are for continuing throughout our common life that steady evolution toward democracy which has gradually changed the political form of the government that Alexander Hamilton gave us. If it is blocked we shall eventually be forced into revolution both political and industrial."

"Why don't you form a liberal party, then, instead of traveling in the Republican and Democratic columns?" I asked.

"That's what ought to be done. but our people are so conservative as to forms that as yet we must seek votes as Democratic liberals or Republican liberals. But eventually we shall have a new liberal party unless one of the old parties surrenders. I recognize that there is a place in our politics for conservatives, but we ought to have them all in one camp. The rise of the labor party in England is the most significant thing in the world today. Maybe we shall have something like it here—but perhaps with a prettier name. That depends."

SCHOOL FOR TRADERS & INVESTORS

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everything on the list that looks attractive, and thus spread out your margin in a thin layer over numerous stocks which may be subject to a variety of individual influences, on the theory that you are thus distributing your risk. The distribution of risk is all very well, but it must not be accomplished at the expense of the general marginal position. Furthermore, in the face of a general reaction, while all issues may travel in the same general direction, they do not all go the same distance, or with the same speed. Under such conditions it is difficult to discriminate among a list of stocks, especially when it must be done on the spur of the moment, and it is often the case that the only safe action in the emergency is to immediately take a neutral position on the whole list. Thus, perfectly safe positions may be relinquished along with those that are risky, and if the subsequent rally is fast, some good stocks may be difficult to recover without needless loss of profits which should have been retained. In other words, don't have too many irons in the fire, for you may not be able to give them the careful attention they require at the psychological moment.

The second greatest curse of the average trader is impatience. He may discover a very attractive issue, and secure an advantageous position, only to find that his favorite is standing still while numerous other stocks are active. In spite of the fact that his choice was made after a careful study of its individual qualifications, and because he was convinced that it was technically prepared to move a greater number of points than most of

the other stocks from which it was selected, he is decoyed away from it by the inviting flurries elsewhere. After carefully laying his plans, he lacks the necessary patience to let them develop. Impatience at the wrong time has caused many a trader to switch from an apparent "sleeper" into what he considers a "live one," only to find that he has lost an ideal position just before the estimated move gets under way. The moral is: Don't be impatient when you have a perfectly sound position on a stock that is almost certain to have its turn.

Impatience sometimes takes another form, and that is when the trader has the uncontrollable impulse to be doing something every minute, even when the market trend is in doubt and all orthodox traders should hold a neutral position, and leave the stage to the gamblers and suckers. Don't feel that you simply must be in the market all the time, but get out occasionally so as to regain your perspective and an unprejudiced view of the situation, especially when the trend is not clear.

IS THE INDUSTRIAL CENTRE SHIFTING TO THE WEST?

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an economic geography to chart his dealings. And as yet there is none. The newly created Division of Domestic Commerce, of the Department of Commerce (with Irving Paull temporarily commandeered to direct it), is engaged in the stupendous undertaking of making a survey of domestic commerce, which will be the first comprehensive step toward the drafting of such a chart. When the survey is promulgated and digested, it will doubtless have a profound influence on the acceleration of re-location of existing industries and on the determination of location of new ones.

The general, informed and judicious reallocation of industry will spell advantage to some industrial regions and disadvantage to others. It will check some cities and stimulate others. The business agencies that seize the new and better way by the forelock will profit. Those that do not will stagnate or decline, for the rule-of-thumb cannot compete with scientific knowledge; and a guess is a poor substitute for a fact.

HOW WILL COOPERATIVE MARKETING AFFECT THE COTTON MILL OWNER?

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the grades and qualities that are demanded, and to assure the mill that it is receiving as good treatment as it could obtain through purchasing in any other direction.

So far as the mill is concerned, then, the effect of the marketing methods now in vogue is likely to be chiefly that of shifting the burden of financing from the shoulders of the mill owner and operator to those of the cooperative farmer and of his bank, the intermediate broker being gradually eliminated or reduced in